GREAT CANADIAN OIL SANDS LIMITED 1968 ANNUAL REPORT

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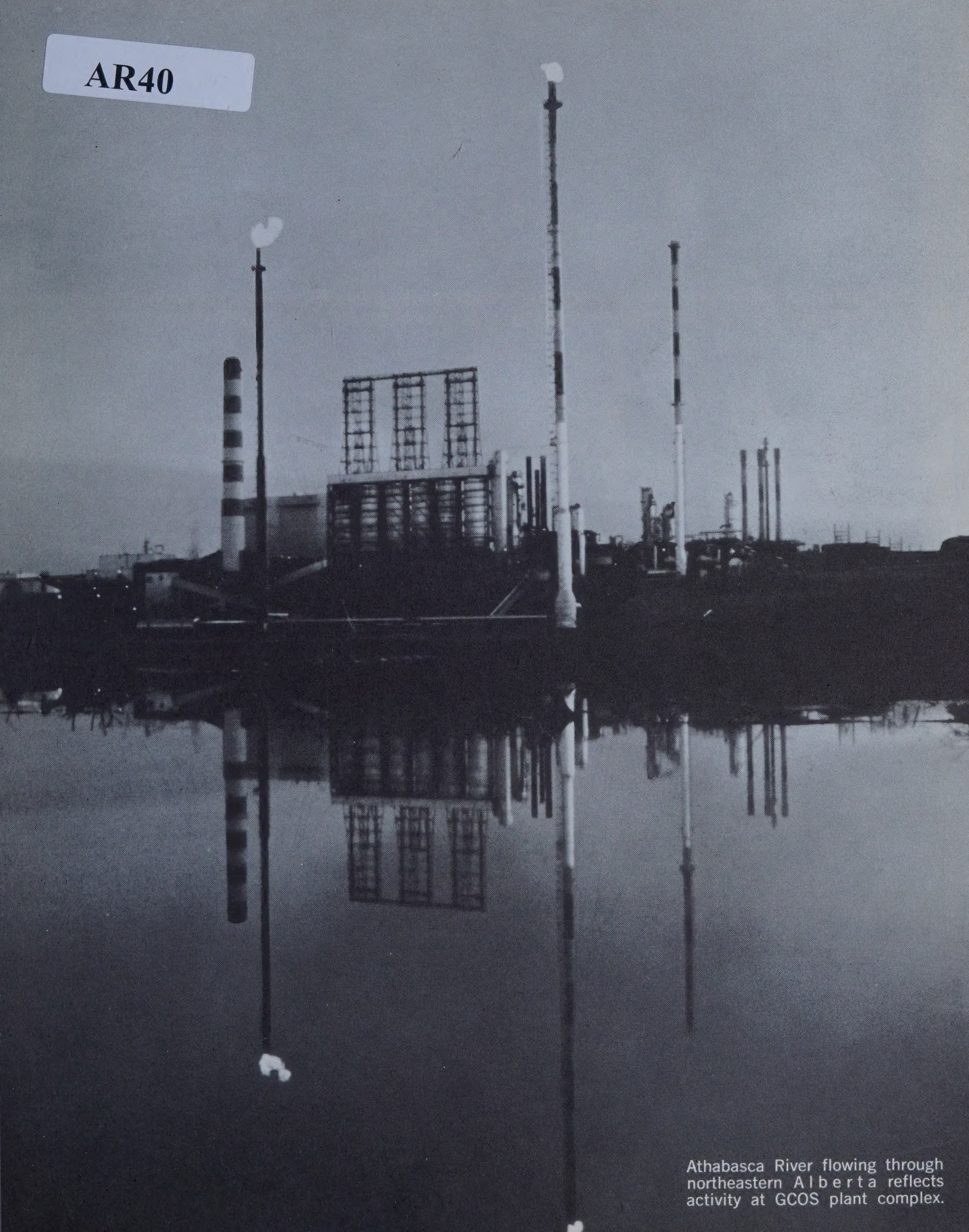


Athabasca River flowing through northeastern Alberta reflects activity at GCOS plant complex.

Visitors to the GCOS plant are conducted on tours of the facility with overall view of mining area to see excavators operating.

Mrs. Karl Clark and Lt. Gov. Grant MacEwan at dedication of Fort McMurray school named for the late Dr. Clark, pioneer in oil sands research. The tray was presented by GCOS.

GCOS hosts dinner-dance for employees and spouses as prelude to Christmas season.

The Honourable Harry E. Strom, premier of the Province of Alberta, enjoys meal at Great Canadian plant during visit to town of Fort McMurray.

"Certainly our GCOS family is now emerging more clearly with a distinct identity. It comprises all of us who have dedicated our careers, and indeed our families' welfare, to the success of the operations and to the growth of our Fort McMurray community."

Harold V. Page
Executive Vice-President

Friendly Sunoco service station now serves residents of Fort McMurray.

GREAT CANADIAN OIL SANDS LIMITED

Report of the Directors to the Shareholders and to the Employees

During 1968, your Company's full energies were devoted to solving the start-up difficulties which have severely limited operations since construction was completed. We are pleased to report that good progress has been made. In the first nine months, the volume of synthetic crude produced was approximately 3,300,000 barrels. This relatively low level of production resulted from lengthy periods when facilities were not operating because of boiler problems and equipment failures in the process area.

In anticipation of increased production, your Company changed, as of October 1, 1968, from a pre-production to a commercial operating basis. Output for the last three months totalled 2,200,000 barrels, averaging approximately 50 percent of daily allowable with between two-thirds and three-quarters of daily allowable being achieved for sustained periods.

For the operating period October 1 to December 31, 1968, your Company experienced a loss of $8,667,461. Contributing significantly to this situation were continuing production levels at less than capacity plus high maintenance costs and operating expenses which were incurred as work proceeded toward achieving desired plant operation.

The plant's main boilers have been performing continuously at reduced levels of output and plans call for them to be further modified in the spring and summer of 1969 to enable operation at full rated capacity. As a safety measure steps were taken last autumn to supplement the facility's steam-making capacity by installing three package boilers each capable of producing 115,000 pounds of steam per hour. This gas-fired equipment was built and is owned by the boiler sub-contractor.

Major mechanical repairs were made to the hydrogen plant during the summer and it is now operating efficiently.

The first shipments of sulphur were begun in 1968 following the completion of handling facilities at the railhead in Fort McMurray. The sulphur is trucked from the plant to the rail line. By year end sulphur production had totalled 23,000 long tons.

In the mining area, the company has devoted extensive research to ensuring maximum production. A number of experiments have been conducted to combat frost penetration of the tar sands. One method which has given encouraging results involves dynamiting during the warmer months, fluffing up the tar sands to admit air which acts as an insulator during the cold weather. In addition, considerable work was done in improving the design of buckets and teeth on the bucketwheel excavators and we are pleased to report that both tooth and bucket life have been considerably extended.

Overburden removal continued through 1968 on the 4,500-acre lease and approximately 7,500,000 cubic yards of overburden were removed from areas to be mined.

Late in the year two additional storage tanks were under construction at a cost of $1.4 million, increasing the diluted bitumen storage by 330,000 barrels.

Some additional capital expenditures appear to be desirable for modifying the design of some units and providing greater operational flexibility. Such modifications, plus experience gained to date, should facilitate bringing the plant up to its authorized level of production on a sustained basis.

As sustained maximum levels of production are reached, efforts will continue to be directed towards further increasing operating efficiency and reducing costs.

Meanwhile, long-range engineering and economic studies are being made and evaluated to determine those areas of the Company's operation where further investment will provide meaningful profit advantages.

Your Company's management team was realigned and strengthened during 1968. Harold V. Page, vice-president, manufacturing, Sun Oil Company Limited, was named executive vice-president and director. Robert McClements, Jr., and Reginald D. Humphreys were appointed to the newly created posts of vice-president, mechanical, and vice-president, process, respectively. Able assistance was provided by a number of management people loaned to Great Canadian by Sun Oil.

Last year application was made to the Alberta Oil and Gas Conservation Board for permission to produce an additional 20,000 barrels per day of synthetic crude. It has been decided to defer further action on this application pending experience in operating the existing facilities at full capacity.

During the year approximately $49,700,000 in additional funds were received. Of this amount Sun Oil Company and subsidiaries provided $24,000,000 and the balance came from the short-term money market, bank loans and the Central Mortgage and Housing Corporation.

Your Company has to this date borrowed a total of $145,000,000 from Sun Oil Company and subsidiaries. It is proposed that this debt be replaced by 7% non-cumulative redeemable preferred shares which would be issued to Sun Oil Company and subsidiaries. Accordingly, subject to the approval of the shareholders of the Company, your Company's authorized capital is to be increased by $300,000,000 divided into 3,000,000 preferred shares of the par value of $100 each, of which 1,450,000 shares are to be issued to Sun Oil Company and subsidiaries at the cash price of $145,000,000. The remaining 1,550,000 shares will be available for future issue as may be determined from time to time by the Directors of the Company. The pro-forma column on the balance sheet and Note No. 1 to the financial statements reflect this proposed change.

Finally we would like to express our appreciation to all Great Canadian employees. Their hard work and fine performance in 1968 contributed significantly to our progress.

W. H. Rea K. F. Heddon

W. HAROLD REA
Chairman of the Board

KENNETH F. HEDDON
President

February 20, 1969.

GREAT CANADIAN OIL SANDS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET — DECEMBER 31, 1968

(with comparative figures at December 31, 1967)

ASSETS	**1968**	**1967**
Current:		
Cash	**$ 283,475**	$ 199,809
Accounts receivable (Note 3) —		
Trade	**2,274,211**	
Other	**2,423,696**	618,671
Inventory of finished product, at estimated net realizable value	**1,786,516**	1,074,031
Prepaid charges	**2,780,215**	1,953,744
Total current assets	**9,548,113**	3,846,255
Plant facilities and housing (Note 4):		
Plant, buildings and equipment, at cost	**178,147,449**	175,135,700
Less accumulated depreciation	**3,732,971**	114,788
	174,414,478	175,020,912
Housing—		
Rental housing properties and trailers, at cost (less accumulated depreciation 1968 — $690,406, 1967 — $657,840)	**2,396,645**	3,195,109
Houses to be sold under long-term instalment sale agreements with employees, at selling price which is less than cost	**236,716**	1,168,691
Amounts receivable, under long-term instalment sale agreements, for houses sold to employees (Note 7)	**5,703,162**	3,808,993
Total plant facilities and housing	**182,751,001**	183,193,705
Deferred costs (Notes 2 and 4):		
Deferred development, preproduction and start-up costs, less write-offs and amortization (as per accompanying statement)	**67,124,304**	64,781,562
Deferred overburden removal (stripping) costs	**10,778,670**	5,104,138
Total deferred costs	**77,902,974**	69,885,700
	$270,202,088	$256,925,660

LIABILITIES, CAPITAL AND DEFICIT	*Pro-Forma (Note 1)*	**1968**	**1967**
Current:			
Bank loans	*$ 6,550,000*	**$ 6,550,000**	$ 800,000
Accounts payable and accrued charges (Note 3)	*7,142,963*	**7,142,963**	6,158,302
Total current liabilities	*13,692,963*	**13,692,963**	6,958,302
Non-current (Notes 1 and 5):			
Short term notes which are to be refinanced —			
Payable to parent and affiliated companies (including $100,000,000 7% notes due June 30, 1969)	—	**145,000,000**	121,000,000
Payable to others	*50,125,000*	**50,125,000**	32,275,000
6% unsecured debentures (Alberta issue) due May 15, 1975	*12,392,332*	**12,392,332**	12,469,900
5¾% U.S. $50,000,000 notes due July 1, 1991, translated at exchange rates prevailing at dates of issue	*53,769,000*	**53,769,000**	53,769,000
6¼%-8¼% mortgages payable on houses sold and to be sold and rental units (repayable over terms up to 25 years)	*6,605,378*	**6,605,378**	4,486,978
Total non-current liabilities	*122,891,710*	**267,891,710**	224,000,878
Capital (Notes 1 and 6):			
At Balance Sheet Date:			
Authorized — 9,000,000 shares without nominal or par value			
Issued — 5,992,188 shares (1967 — 5,982,492 shares)		**26,044,048**	25,966,480
Pro-Forma:			
Authorized — 3,000,000 preferred shares of $100 par value each			
9,000,000 common shares without nominal or par value			
Issued — 1,450,000 7% non-cumulative redeemable preferred shares	*145,000,000*		
5,992,188 common shares	*26,044,048*		
Deficit	*(37,426,633)*	**(37,426,633)**	
Total shareholders' equity or (deficiency)	*133,617,415*	**(11,382,585)**	25,966,480
	$270,202,088	**$270,202,088**	$256,925,660

On behalf of the Board:
W. H. REA, Director
J. S. ROE, Director

See accompanying notes to financial statements

STATEMENTS OF INCOME AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1968

INCOME (Covering operations for the period October 1 - December 31, 1968 — Note 2)

Revenue:		
Value of synthetic crude and sulphur produced for sale		$ 6,370,269
Costs and expenses:		
Costs and operating expenses	$ 9,143,195	
Administrative and general expenses	376,682	
Amortization of deferred development, preproduction and start-up costs	273,505	
Depreciation	1,001,570	
Interest —		
On bank loans and short term notes	1,513,558	
On long term notes and debentures	2,729,220	15,037,730
Net loss for the period October 1 - December 31, 1968		$ 8,667,461

DEFICIT

Net loss for the period October 1 - December 31, 1968 (as above)	$ 8,667,461
Add amount written off deferred development, preproduction and start-up costs as an extraordinary charge (Note 2)	28,759,172
Balance, December 31, 1968	$37,426,633

STATEMENT OF DEFERRED DEVELOPMENT, PREPRODUCTION AND START-UP COSTS FOR THE YEAR ENDED DECEMBER 31, 1968

Balance, December 31, 1967		$64,781,562
Add adjustment relating to prior years (representing estimated depreciation on mining and mobile equipment accrued to December 31, 1967 not previously recognized in the accounts)		2,616,247
Additions during the period January 1 to September 30, 1968:		
Salaries and wages	$ 3,602,228	
Maintenance and materials	11,036,611	
Contract services, including overburden removal	4,895,195	
Interest	11,788,846	
Depreciation	736,100	
Other	5,984,939	
	38,043,919	
Value of synthetic crude and sulphur produced	9,284,747	28,759,172
Balance before extraordinary charge and amortization		96,156,981
Deduct:		
Amount written off as an extraordinary charge to deficit (representing additions during the period January 1 to September 30, 1968 — Note 1)	28,759,172	
Amortization charge against income for the period October 1 to December 31, 1968	273,505	29,032,677
Balance, December 31, 1968		$67,124,304

See accompanying notes to financial statements

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	1968	1967
Source of funds:		
Increase in short term notes and bank loans	**$47,600,000**	$31,075,000
7% notes payable to parent company		22,000,000
Mortgages on houses	**2,118,400**	4,486,978
Bank term deposits matured		8,647,506
	$49,718,400	$66,209,484
Application of funds:		
Deferred development, preproduction and start-up costs (less depreciation 1968 — $736,100, 1967 — $430,422)	**$28,023,072**	$36,812,368
Net loss for period October 1 - December 31 (less depreciation and amortization of $1,275,075)	**7,392,386**	
Deferred overburden removal costs	**5,674,532**	
Plant facilities and housing	**3,911,213**	28,886,333
Increase in current assets (less increase in accounts payable and accrued charges)	**4,717,197**	510,783
	$49,718,400	$66,209,484

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS — DECEMBER 31, 1968

1. **Pro-forma liabilities and capital**

A pro-forma column has been added to the liability and capital section of the balance sheet to illustrate the effect, as at December 31, 1968, of the proposed creation of 3,000,000 preferred shares of $100 par value each, the issuance of 1,450,000 of the said shares and the use of the proceeds from such issue to retire the $145,000,000 short term notes payable to parent and affiliated companies. Subject to the creation of such shares which must be authorized by the shareholders, Sun Oil Company has agreed to subscribe directly or through subsidiaries for 1,450,000 7% non-cumulative redeemable preferred shares at the cash price of $145,000,000.

2. **Operations**

The company considers its plant to have commenced commercial production on a sustained basis as from October 1, 1968 and the accompanying statement of income accordingly reflects the results of operation for the three month period October 1 - December 31, 1968. Production for this period was however below planned levels.

Prior to October 1, 1968 the company incurred development, preproduction and start-up costs in the amount of $96,156,981 after deducting the value of synthetic crude and sulphur produced. Of this total $28,759,172 represents the net amount by which such costs increased during 1968, largely due to unexpected difficulties with the power plant boilers and other mechanical equipment. As these 1968 preproduction and start-up costs are in excess of those originally anticipated they have been written off as an extraordinary charge against deficit account.

3. **Accounts with affiliated companies**

Included in accounts receivable and accounts payable are the following amounts receivable from, or payable to Sun Oil Company Limited (parent company) and its affiliates:

Accounts receivable	$1,678,461
Accounts payable and accrued charges	245,850

4. **Depreciation of plant facilities and housing and amortization of deferred costs**

The company's productive facilities are being depreciated as from October 1, 1968 using a unit of production method based on estimated reserves. Furniture and fixtures and automotive equipment are being depreciated over their estimated useful life periods ranging from 3 to 10 years. Rental housing properties are being depreciated over 5 years (trailers) and 25 years (buildings).

Commencing October 1, 1968 deferred development, preproduction and start-up costs are being amortized against income using a unit of production method based on estimated reserves. Deferred overburden removal (stripping) costs, previously grouped with deferred development costs, are now shown separately, and are being charged to production on the basis of the area actually mined.

5. **Non-current liabilities**

a) Short term notes which are to be refinanced —
It is the company's intention to arrange long term debt or equity financing to replace the short term notes of $50,125,000 shown as payable to others at the year end. Sun Oil Company has undertaken to effect such replacement itself if the company is unable to arrange long term debt or equity financing from other sources.

b) 6% unsecured debentures (Alberta issue) —
These debentures, which mature on May 15, 1975, comprise the following:

Debentures which are partially convertible (of which $336,100 are held by the parent company)	$12,227,500
Debentures in respect of which the partial conversion privilege was exercised during 1968	164,832
	$12,392,332

Subject to certain terms and conditions, the partially convertible debentures may, at any time after May 15, 1968 and before May 1, 1975, be converted into fully paid and non-assessable shares of the company on the following basis, that is, with respect to each $100 principal amount of the debentures, $32 thereof may be applied to the purchase of and converted into:

(i) Four shares after May 15, 1968 and before May 16, 1970, or
(ii) Three shares after May 15, 1970 and before May 16, 1973, or
(iii) Two shares after May 15, 1973 and before May 1, 1975.

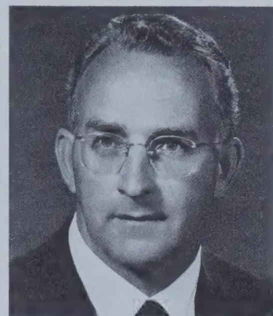
Holders resident in Alberta of unconverted debentures may require Sun Oil Company Limited to purchase, before April 1, 1975, their debentures at par plus accrued and unpaid interest.

GCOS MANAGEMENT TEAM IS STRENGTHENED

The latter half of 1968 saw a realignment and strengthening of management skills with the appointment of Harold V. Page as executive vice-president and director, Robert McClements, Jr., as vice-president, mechanical, and Reginald D. Humphreys, as vice-president, process.

Mr. Page, former vice-president of Dow Chemical Europe, joined GCOS last July. Born in Kenora, Ont., he holds a chemical engineering degree from the University of Toronto. Mr. Page also is vice-president, manufacturing for Sun Oil Company Limited, Toronto.

Mr. McClements joined GCOS in 1965 as plant manager while the complex was still under construction. In 1967 he was named vice-president and director. Born in Philadelphia, Mr. McClements is a civil engineering graduate of Drexel Institute of Technology in that city.



Mr. Humphreys, formerly superintendent of the Montreal refinery of Shell Canada Limited, joined GCOS last October. Born in Dartmouth, Nova Scotia, Mr. Humphreys received his degree in chemical engineering from Nova Scotia Technical College, Halifax.

DIRECTORS (as at December 31, 1968)

ALEX E. BARRON	W. HAROLD REA
DARWIN W. FERGUSON	JAMES S. ROE
KENNETH F. HEDDON	J. GRANT SPRATT
ROBERT McCLEMENTS, JR.	DONALD J. WILKINS
HAROLD V. PAGE	

OFFICERS (as at December 31, 1968)

W. HAROLD REA	Chairman of the Board
KENNETH F. HEDDON	President
HAROLD V. PAGE	Executive Vice-President
WILLIAM H. DAVIS	Vice-President
DARWIN W. FERGUSON	Vice-President
REGINALD D. HUMPHREYS	Vice-President
ROBERT McCLEMENTS, JR.	Vice-President
ARDAGH S. KINGSMILL	Secretary
JAMES S. ROE	Treasurer
MAURICE B. PARMELEE	Comptroller and Assistant Treasurer
DUDLEY M. McGEER	Assistant Treasurer
WILFRED C. BLOOD	Assistant Comptroller

HEAD OFFICE
85 Bloor Street East, Toronto 5, Ontario

TRANSFER AGENT AND REGISTRAR
THE CANADA TRUST COMPANY
110 Yonge Street, Toronto 1, Ontario
10182 102nd Street, Edmonton, Alberta
528 8th Avenue S.W., Calgary, Alberta

SOLICITORS
Tilley, Carson, Findlay & Wedd
Toronto, Ontario

ANNUAL AND SPECIAL GENERAL MEETING
The Shareholders' Meeting will be held in the Library, The Royal York Hotel, 100 Front Street West, Toronto, Ontario, at 10.30 a.m. (Toronto time) on Friday, March 28, 1969.

c) 5¾% U.S. $50,000,000 notes due July 1, 1991 —
The terms of the 5¾% notes require annual prepayments of U.S. $2,000,000 commencing July 1, 1971. The terms permit the company to make optional additional annual prepayments of up to U.S. $2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.

6. **Share capital**

9,696 shares were issued during the year upon the partial conversion of certain of the 6% unsecured debentures. 490,304 shares are reserved for possible issuance in future upon the partial conversion of the remaining debentures. A further 7,500 shares are reserved for possible issuance at $3 per share under a contract dated June 29, 1964 granting an option to a director exercisable subject to certain terms and conditions on or before June 29, 1969.

7. **Commitments and contingent liabilities**

a) The company is a party to an agreement with Sun Oil Company Limited and Abasand Oils Limited involving the sublease of Bituminous Sands Lease No. 86 (approximately 4,500 acres) in respect of which the company is operating its plant. Lease No. 86 runs for a term of 21 years from June 1, 1966, renewable for further terms each of 21 years so long as the plant is in operation and subject to such terms and conditions as may be prescribed at the time renewal is granted. The annual rental is $1 per acre. Under this agreement the company has also assumed an indebtedness to the Government of Canada of $1,802,107 in respect of certain wartime expenditures in the Athabasca Tar Sands area. Principal payments on this debt have been deferred on an interest free basis until 1978. As the company is hopeful of obtaining relief from this debt, no provision for this amount has been recorded in the accounts of the company.

b) In addition to crown royalties payable on production, the company is obligated to pay to Sun Oil Company Limited and Abasand Oils Limited (under the provisions of the sublease agreement referred to in (a) above) a basic royalty of 10¢ per barrel of bitumen extracted or recovered from bituminous sands from the leased land, together with additional royalties to Sun and Abasand in respect of desulphurized crude oil under certain circumstances, and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. The sublease contains provisions for the payment of advanced royalties under certain circumstances where the annual production from the leased land is less than 8,212,500 barrels of synthetic crude.

c) Under the provisions of the sale agreements covering the sale of houses to employees, the company has undertaken, in the event of employee termination within 10 years of the date of the sale agreement, to repurchase the employee's house by refunding all principal payments received. The aggregate of principal payments subject to such repurchase commitments at December 31, 1968 was approximately $140,000.

d) The company is a party to agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of crude oil to be obtained from the project.

e) Under the terms of an agreement with a supplier, the company may be required, under certain circumstances, to purchase inventories owned by the supplier, which at December 31, 1968 amounted to approximately $5,000,000.

8. **Remuneration of directors**

The total remuneration paid by the company to directors during 1968, including directors holding salaried employment, amounted to $86,707.

AUDITORS' REPORT

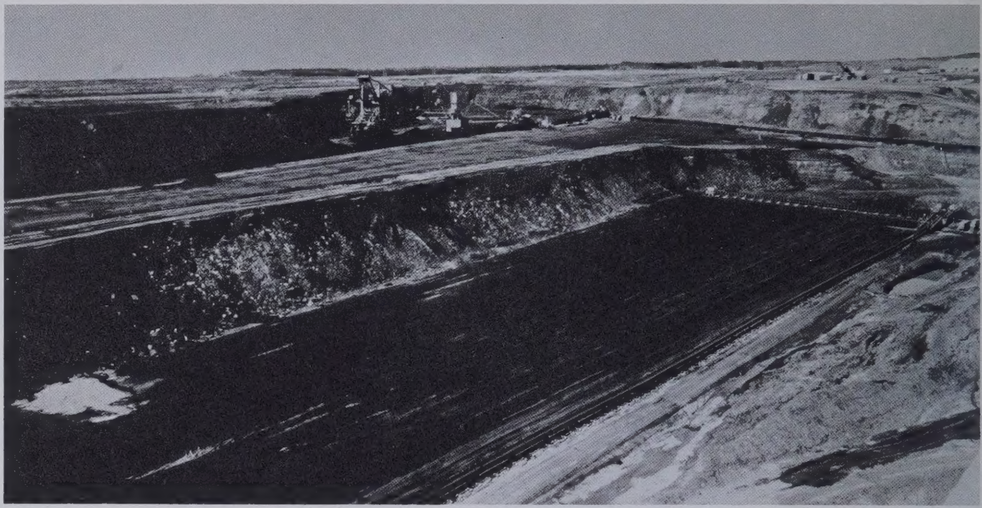
To the Shareholders of
Great Canadian Oil Sands Limited:

We have examined the balance sheet of Great Canadian Oil Sands Limited as at December 31, 1968 and the statements of income, deficit, deferred development, preproduction and start-up costs and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

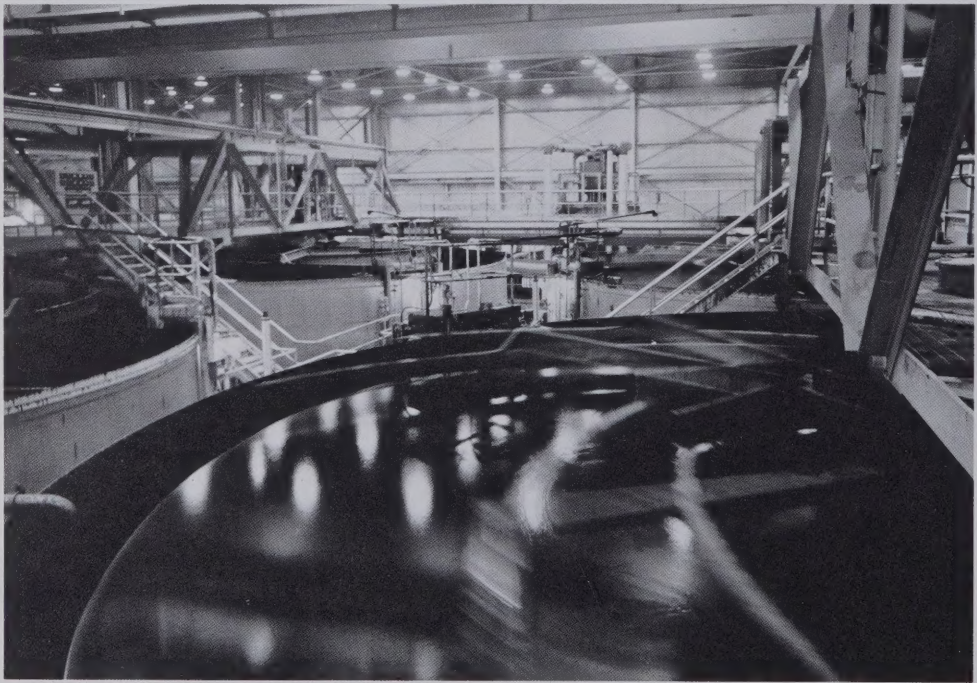
In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Canada
January 22, 1969

CLARKSON, GORDON & CO.
Chartered Accountants



As operations continued during 1968, the Great Canadian Oil Sands complex began to take on a new look with activity apparent in many areas of the lease



GAS PIPELINE (top left) stretching 168 miles north to plant was completed in 1968 to provide supplemental feed gas for hydrogen manufacture and as auxiliary fuel for other units. Albersun Oil and Gas Ltd., a Sun Oil Co. Ltd. subsidiary, owns and operates line.

EXCAVATED OIL SANDS area of GCOS lease (top right) shows mining progress as the bucket-wheels dig into banks far from the processing complex. Conveyor belt system connects with excavators to carry the mined tar sands to primary extraction facilities at plant.

SULPHUR SHIPMENTS (above) continue from diked area of the GCOS complex with the aid of a front-end loader. An important by-product of the tar sands process, sulphur is removed from hydrogen sulphide extracted from light gases produced by the six giant cokers.

SEPARATION CELLS (left) where huge revolving blades skim bitumen-laden froth from top of sand and hot water mixture. Sand and water settle to bottom of tank. In total, there are six separation cells in the Primary Extraction Plant.

GREAT CANADIAN OIL SANDS LIMITED

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